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TREASURY FOR USED IBRD AND IDB AND INTL/MDB
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SUBJECT: ETHANOL IN THE RAINFOREST: GLOBAL COMMODITIES AND HIGHWAY
EXPORT CORQS TRANSFORMING THE FACE OF THE SOUTHWEST AMAZON

11. Summary: USAID Mission officers and the Regional Environmental Affairs Officer visited the Southwest Amazon February 4-10, 2007 (en route to the Amazon Basin Conservation Initiative meeting in Yucay, Peru) on a 550- kilometer road trip connecting Rio Branco, capital of the state of Acre, with Puerto Maldonado, capital of Madre de Dios Department, Peru. This route will soon form a paved export corridor extending to the Peruvian port of Ilo. The group witnessed vastly different land-use practices between the two countries and sweeping changes taking place in the region as new highway corridors link this isolated region with Pacific ports. In a landscape predominated by pastureland on what was formerly lush rainforest, the group was surprised to see a large expanse of sugar cane and a recently-installed ethanol plant near the Brazilian town of Capixaba. Every indication is that sugar cane cultivation has joined cattle ranching and soybean cultivation as a profitable enterprise in the Brazilian rainforest, putting yet more pressure on this unique ecosystem. END SUMMARY.

WHERE HAVE ALL THE TREES GONE?

12. Much of the tropical rainforest in a wide swath along the BR-317 highway between Rio Branco and Assis Brasil, Acre was cleared decades ago in a first wave of settlement of ranchers from southern Brazil starting in the 1970s. The landscape for most of the 330 kilometer distance between the state capital and the border with Peru is one of unbroken cattle pastures with a few patches of farm woodlots and scattered solitary giant Brazil nut trees providing the only shade for the zebu cattle. Just beyond the horizon to the

northwest of the BR-317 highway, the Chico Mendes Extractive Reserve protects one million hectares of rainforest and the livelihoods of traditional rubber tappers and Brazil nut collectors. The 220-km stretch of un-paved road between border town Inapari and Puerto Maldonado, Peru is also largely deforested, although blocks of largely intact forest still exist, apparently supporting the economies of small towns that depend on Brazil nut collecting for a living.

TAMING THE RAINFOREST: DEFORESTATION BY ANOTHER NAME

13. The mindset in Acre state several decades ago was one that equated development with conversion of the rainforest to "higher and better" use, mainly speculative cattle ranching. In spite of the ease with which rainforest trees will burn when felled and piled up during the dry season, it still takes a number of years to "tame" the land, removing stumps and re-sprouting roots to prepare unimpeded farm or pastureland. Even though ranchers profited from land speculation, many cattle operations failed because of lack of pasture technology adapted to the humid tropics. Unfortunately, taming the rainforest also involved land grabbing and serious clashes with traditional populations of rubber tappers and Brazil nut collectors, culminating in the murder of rubber tapper leader Chico Mendes at his home QXapuri, Acre in December 1988.

FLORESTANIA: GOVERNANCE ON THE AMAZON FRONTIER

14. Eight years ago, Chico Mendes' protege governor Jorge Viana began to change the state mindset by establishing the "government of the forest", recognizing the value of Acre's standing forests for the benefit of the state's population. Many new conservation areas were established under Viana's leadership. Viana was recently succeeded by Binho Marques, who intends to continue extending citizen benefits to rainforest dwellers, while dealing with changing realities brought on by advancing roads and agribusiness, ending Acre's isolation from the rest of the world. In recognition of the economic potential of the standing forest, USAID's "Amazoniar" consortium of local NGOs is helping traditional populations and settler communities in the Southwest Amazon establish sound, sustainable, income-generating forest management practices.

THE GRASS IS GREENER

15. Pasture technology developed by Embrapa, Brazil's agricultural research enterprise, eventually sparked a second wave of entrepreneurial cattle ranching on degraded pasture lands depleted of nutrients after the illusory first flush of productivity derived from rainforest ashes. Part of this new technology involves establishment of African pasture grasses such as *Brachiaria brizantha* in consortium with nitrogen-fixing forage legumes such as tropical kudzu (*Pueraria phaseoloides*), producing greener, more palatable pastures. The result is nutritive long-lasting pastureland capable of supporting healthy productive cattle herds - the predominant landscape along much of the BR-317 highway today. Much to the dismay of environmentalists, today's reality is that Amazon cattle ranching is a profitable enterprise with sights on even more lucrative international markets with eventual control of hoof-and-mouth disease.

GREEN ALCOHOL?

16. To our surprise, the constant landscape of cattle pastures in Acre was broken near the town of Capixaba by a twelve-kilometer expanse of sugar cane, extending as far as the eye could see. A road sign announcing inauguration of the Farias Group's "Alcool Verde" operation stood next to neatly organized plots of a sugar cane variety trial. The Farias Group, which already operates distilleries in Sao Paulo, Goias, and northeastern Brazil expects to harvest 1.5 million tons of cane starting in 2008 (a ton of sugar cane can produce 80 liters of ethanol; a hectare of cane can produce over six thousand liters of ethanol; the production of ethanol from this distillery alone would supply a fleet of 72,000 flex-fuel economy cars for one year - more than the total fleet of Rio Branco, Acre), ramping up to 3.5 million tons yearly with addition of a mill designed for sugar export through Pacific ports. Calculating a yield of 75 tons of cane per hectare, the Farias Group will occupy twenty thousand hectares at startup of their operation, growing to almost fifty thousand hectares at peak production. NOTE: During

the Common Agenda for the Environment meeting in Brasilia in late 2006, a high level official in the Brazilian Foreign Ministry claimed that environmental concerns over expansion of biofuels are overblown, stating that "it is scientifically proven that you can't grow sugar cane in the rainforest". End Note.

SUGAR CANE IN THE RAINFOREST

17. Conversion of established pastureland to cultivation of sugar cane in this former rainforest landscape is made easier by years of "taming" the land, making it ready for mechanized cultivation with little further investment. That rainforest land in the Southwest Amazon is suitable for sugar cane cultivation should come as no surprise - almost all of the cane grown in Brazil, including the highly productive sugar cane operations in Sao Paulo state, occupies land that was once Atlantic Rainforest. Nevertheless, the success of sugar cane cultivation in the Southwest Amazon could exert pressure to clear additional rainforest land as displaced cattle operations seek out new lands to expand, a phenomenon that has been documented in Mato Grosso state where soybeans replaced pastureland.

THE ROAD TO THE PACIFIC: A TWO-WAY STREET

18. Brazilian entrepreneurs, encouraged by the success of cattle ranching and increasing industrialization in the Southwest Amazon, are setting their sights on Asian markets with the soon-to-be completed paving of the road to the Pacific port of Ilo, Peru. The 330-km road between state capital Rio Branco and border town Assis Brasil is already paved, and the 220-km distance between Peruvian border town Inapari and department capital Puerto Maldonado is in the process of being paved, but currently offers a very suitable hard-packed clay surface for unimpeded transportation at least during the dry season. Additional road segments will soon connect the 1470-km route from Brazil's southwest Amazon border to the Pacific port of Ilo, Peru (Cuzco is 740 km distant and Lima is 1871 km from Assis Brasil). Although it is unlikely that raw soybeans produced in the Southwest Amazon would be trucked over the Andes, timber, processed meat, soy meal and oil, and sugar and ethanol are likely candidates for Pacific export. Road paving should also open Puerto Maldonado's already well-established rainforest ecotourism industry to an even greater influx of tourists. However, recent stories of drug-running and trafficking in persons from Peru to Brazil along this route and first-hand experience of embassy travelers raises cause for concern over governance of this largely unguarded porous border region.

MAP: THE OTHER TRI-BORDER

19. The department of Madre de Dios, Peru, Acre state, Brazil, and the department of Pando, Bolivia meet at a speck on the map where Arroyo Yaverija meets the Rio Acre, forming a region known by the acronym MAP. A recently inaugurated bridge links the town of Assis Brasil with the even smaller town of Inapari. A new road will soon connect the capital of Pando, Cobija, with Iberia on the Inapari-Puerto Maldonado road. The whole region is on the verge of transformation as isolated populations and lands connect with Brazilian and Asian markets. Recognizing past mistakes in Amazon boom-and-bust economic development, local residents in the MAP region have been meeting periodically for the past eight years to discuss options for orderly development of the region. USAID provides modest small grant funding for events that support this dialogue, which has progressed from an academic exercise to a grass-roots movement of concerned citizens, local authorities, and enlightened entrepreneurs hoping to establish effective governance over economic development of the MAP region.

WHERE HAVE ALL THE CATTLE GONE?

10. With the exception of a few very prosperous cattle operations, the largely treeless landscape along the Peruvian stretch of the inter-oceanic highway was devoid of cattle. Some pastures consisted of *Brachiaria ruziensis*, a less palatable African grass established in the Amazon decades ago, but now little used in Brazil. However, much of the cleared land on the Peruvian side was simply overgrown with secondary forest, an indication that pastures were abandoned after depletion of the first flush of rainforest ash fertility. Several tree plantations of teak (*Tectona grandis* - a Southeast

Asian species) showed signs of having been killed by accidental fires (note: the Southwest Amazon suffered a record drought and subsequent fires in 2005, possibly linked to the same Atlantic phenomenon that spawned Hurricane Katrina). However, paving the road from Inapari to Puerto Maldonado will surely attract cattle ranchers adopting Brazilian pasture technology. The question for the future of the Southwest Amazon portions of Peru, Brazil, and Bolivia is whether traditional extractive economies (rubber and Brazil nuts were traded as global commodities a century ago) can co-exist with production of the newer global commodities of tropical hardwoods, beef, soy, sugar, and ethanol.

TAMING AGRIBUSINESS: RESPONSIBLE SOURCING COMES TO THE AMAZON

¶11. A recent development in the Brazilian Amazon, following on technological advances that have cattle ranchers, soy growers, and ethanol producers eyeing export markets, is corporate concern that company purchasing practices could be perceived as detrimental to Amazon forest conservation. Responsible timber sourcing has become the norm for European and increasingly for U.S. markets interested in Amazon hardwoods. In a remarkable move, in July 2006 members of the Brazilian oil processing association ABIOVE pledged not to purchase soybeans grown on newly-cleared Amazon rainforest land deforested after the date of the announcement (the initial two-year purchasing moratorium is expected by many observers to become permanent). Lucas do Rio Verde, Mato Grosso, the second-largest soy producing municipality in Brazil, has pledged to work towards having 100% of its farmers in compliance with Brazil's strict conservation set-aside laws. Cattle ranchers in Mato Grosso are forming the Land Alliance to promote environment-friendly ranching practices and to demonstrate compliance with these same conservation set-aside laws. An equivalent responsible production movement in the ethanol industry is still in its formative stages. USAID is working with The Nature Conservancy, Woods Hole Research Center, and Brazilian NGOs Amazon Institute for Environmental Research (IPAM) and the Land Alliance to encourage responsible corporate sourcing in Amazon grain and cattle industries and to assure independent monitoring of farming practices in compliance with Brazil's environmental standards. Similar efforts by the mission to support responsible biofuel production would be beneficial as the U.S. and Brazil develop plans for cooperation on ethanol.

CONCLUSION

¶12. Comment: Large scale infrastructure development such as the paving of the inter-oceanic highway has greatly reduced the remoteness of the Southwest Amazon. Growing linkages to regional and global markets for timber, soybeans, cattle, and increasingly sugar cane ethanol, coupled with mechanization of both forest clearing and crop production, (in tandem with modern entrepreneurial cattle ranching) could provoke simultaneous intensification and expansion of land use at the heart of the Southwest Amazon. A

comprehensive suite of initiatives including independent certification schemes attesting to environmental soundness of farming and forestry practices, market pressure for responsible sourcing of agribusiness commodities (concurrent with responsible lending practices), adequate environmental impact mitigation of new infrastructure, strengthening of local environmental governance processes, and wider application of satellite-based forest cover monitoring and land use planning tools will be essential to balance economic benefits from expanded commodity production with protection of Amazon biodiversity, vital ecosystem services, and vulnerable rural communities whose livelihoods depend on access to natural resources on one of the world's last forest frontiers. END COMMENT.

SOBEL